

# Argidius - YSB Evaluation Report

Presented by MarketShare Associates

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Authored by:  
Raksha Vasudevan & Matt Styslinger



## Executive Summary

The Argidius Foundation (hereafter referred to as ‘Argidius’) has supported international, market-driven business development initiatives to alleviate poverty since 1992. Yunus Social Business Foundation (YSB) Global Initiatives was launched in 2011 as a non-profit social venture fund that aims to bring sustainable solutions to social problems through growing social businesses. YSB Uganda (YSBU), a subsidiary of YSB Global, has been operating in Uganda since 2015. In January 2016, the Argidius Foundation entered into a four-year partnership with YSB, aimed at supporting its social entrepreneurship acceleration and financing services in Uganda and scale them in the East Africa region.

At the end of 2017, Argidius contracted MarketShare Associates (MSA) to carry out an external evaluation of its support to YSBU, focused on assessing YSBU’s acceleration and financing of social businesses (SBs) to inform ongoing implementation and future plans for expansion of support to the East Africa region. MSA has also conducted an impact case study of one of YSBU’s top performing investees, which is presented in a separate report. The evaluation and case study ultimately aim to contribute to the sector-wide evidence base on what works in supporting the growth of SBs in ways that are financially sustainable.<sup>1</sup>

MSA’s methodology included a document review, interviews with YSB staff and sector experts, and interviewing a sample of YSBU’s full portfolio of SBs supported by its acceleration and investment services. A total of 11 accelerated businesses and five investees were sampled.<sup>2</sup> Nine “non-treatment” firms (i.e. businesses that applied for either acceleration or financing but were ultimately not selected) were also sampled to understand how their growth trajectories fared in comparison to those who were selected for YSBU’s services. The evaluation was carried out by Raksha Vasudevan and Matt Styslinger, with logistical support in Uganda.

**Table 1: Overall Findings by Evaluation Category and Sub-category**

<b>Evaluation Category:</b>	<b>Design and Relevance</b>
Causal link between YSB’s support to SMEs and their performance	<p><i>The cause and effect logic in YSBU’s theory of change is unclear, with results at the outputs and outcomes level often obfuscated. Outcomes are not clearly defined, and associated indicators are either absent or could use improvement.</i></p> <p><i>YSBU’s activities contribute to targets at the output level, and the investment indicator targets in the logframe. Contribution of activities towards the achievement of the higher-level outcomes related to social impact (aside from revenue and job creation) and the social entrepreneurship environment outlined in its Theory of Change is less clear.</i></p>
Extent to which YSB’s support is valued by SMEs	<p><i>YSBU’s investment service is unique and highly valued in terms of the sizes and stages of the ventures it invests in, and the terms of financing. It also appears to be cost-efficient.</i></p> <p><i>The extent to which accelerated SBs’ needs have been met are mixed. Overall, the Accelerator – especially in its earlier iterations but also in its most recent version – requires significant resources but produces limited impact on business growth and investment-readiness.</i></p> <p><i>Post-investment support has been variable. It was most valued when YSBU staff had the skills and availability to directly advise SBs. “Standard needs” common for many start-ups (e.g. financial management, legal services) were not supported and mentors and other local partners were not consistently available, all of which were sources of frustration for both accelerated and invested SBs.</i></p>

<sup>1</sup> Argidius. *Evaluation of YSBU’s Acceleration and Financing of Social Businesses: Terms of Reference*. 2017.

<sup>2</sup> A sample size of 17 SBs supported by YSBU was agreed between MSA and Argidius. The number of accelerated business versus invested businesses in that sample was determined in order to be proportional to the numbers of each in YSB’s overall portfolio.

Extent to which YSB is investing in the 'right' SMEs	<p><i>From a financial sustainability perspective, YSBU has chosen its investments well.</i></p> <p><i>Criteria around "Entrepreneur and team", "Business model" and "game-changing potential" are well-suited to the achievement of both investment and Accelerator program goals. The "social impact" selection criteria may unnecessarily constrain YSBU from accelerating and investing in otherwise eligible SMEs that would implicitly have a social impact through job and income creation in a low-income country.</i></p> <p><i>Particularly for its earlier iterations, there is a question of whether the Accelerator should have used the same selection criteria as the investment service since the goals of these services are not always the same world-wide. Now that the two programs appear more directly linked, it may make more sense to use the same selection criteria for both programs. As well, the application of the selection criteria for Accelerator applicants in the past has not been robust.</i></p>
<b>Evaluation Category:</b>	<b>Results</b>
Specific results of YSB support	<p><i>YSBU has had mixed success meeting its targets. According to its reporting, it has met most of its objectives for 2017 except for the number of Accelerator applications and participants, and total investment deployed in SBs. However, impact created by YSBU's acceleration or financing on SBs' revenues and jobs is unclear due to an unclear attribution strategy, significant exogenous factors and a lack of reliable data from SBs. On the other hand, YSBU's support appears to be positively correlated with amounts of external investment leveraged by invested and accelerated SB.</i></p> <p><i>Support that most consistently contributed to successful business outcomes was the financing, terms of financing, pre-investment support, the brand name and credibility associated with receiving support from YSB, and certain modules in the Accelerator (e.g. pitching, what it means to be a social business, financial systems). Aspects of YSB support that did not clearly lead to successful business outcomes included 'high-level' advice (i.e. not operational) to financed SBs, coaching by external mentors, and most modules of the Accelerator, especially in its earlier versions. YSB support also led to some unintended results, including some SBs making hasty decisions in order to meet loan payments, and others that did not receive investment discouraged from seeking investment altogether.</i></p> <p><i>The evaluation finds low confidence in the results data collected by YSBU, as well as its attribution and validation strategies, especially for non-financial data.</i></p>
Counterfactual and external influences	<p><i>The additionality of YSBU's investment service is high but that of its Accelerator less so.</i></p> <p><i>YSBU is exposed to the same agricultural-related risks as the majority of its portfolio businesses (e.g. crop disease, pests), which helps to explain some of the year-to-year variation in financial and job results of supported SBs.</i></p>
<b>Evaluation Category:</b>	<b>Adaptive Management and Sustainability</b>
Extent to which YSB is learning about its clients and its model	<p><i>YSBU has made important updates to its investment criteria and Accelerator program design based on learnings.</i></p> <p><i>The current division of duties between staff has some downsides from a knowledge management and relationship-building perspective. YSBU acknowledges this, but for the moment prefers this model over versions that it has tested in the past. Some instances of miscommunication with SBs were reported. Some instances of miscommunication with SBs were reported.</i></p> <p><i>While there appears to be a culture of data-driven decision-making and collaboration within YSBU, learning and experimentation do not appear to be rewarded, and negative feedback is not always welcomed.</i></p> <p><i>YSBU has good relationships with other key actors in the sector, but these could be strengthened for further learning and collaboration.</i></p> <p><i>There is no evidence yet of learning from the Arigidius partnership.</i></p>

Extent to which YSB's model is sustainable	<p><i>YSBU's stated aim of reaching sustainability by 2021 does not seem attainable with its current operating model. It has not yet decided what changes need to be made to reach this goal. It has also stated that a certain amount of philanthropic funding would always be helpful to support aspects that it views as 'non-core' but helpful to its operations.</i></p> <p><i>The investment fund structure and one-to-one pre and post-investment coaching appear replicable in other contexts. Methods of sourcing SBs, investment sizes, and the Accelerator program will need to be heavily adapted to the context, something that YSB already seems well aware of and is considering in its regional expansion.</i></p>
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## Recommendations

- YSBU should clarify its Theory of Change and update its results framework accordingly.
- Further to the changes it has already made to its Accelerator, which make it more focused on investment readiness and less of a stand-alone program, YSBU could consider eliminating the Accelerator program. In its place, it could expand some of its existing offers (personalized one-to-one coaching, sessions with small groups), or referring businesses to other accelerator programs, or a combination of all three for businesses that it deems as being almost investment-ready.
- The design of post-investment services should be re-considered to better enable YSBU to provide support on 'standard' needs of SBs and provide specific technical support on the challenges faced by SBs in certain sectors. In addition to the efforts that YSBU has already made to build and use a roster of external service providers, the design of post-investment services could further systematize this type of support, including through factoring in the costs of this external assistance into its loans.
- Although YSB's mission at a global level is to support SMEs that have a social impact, YSBU could further reduce the weighting of or altogether remove the social impact criterion in its investment criteria to enlarge the pool of investment-eligible SBs. That criterion could be replaced by a do-no-harm principle which is likely sufficient to ensure social impact in the Ugandan context.
- In general, there's little focus on attribution among impact investors and no clearly defined definition or best practices.<sup>3</sup> Within this context, YSBU could still take steps to get a clearer picture of its impact by linking the intended and actual uses of its services to its impact indicators, namely revenue and job creation. A clear attribution formula based on how the loan is intended to be invested should be developed at the due diligence stage with potential investees, including a prorating formula (i.e. allocating parts of an investee's results to YSBU and other investors based on capital invested and post-investment TA provided), then reviewed and revised periodically. Critical to establishing attribution will be capturing and documenting further qualitative information on how SBs have used YSB support, whether it be financing or technical assistance. YSB reports that this information is gathered and discussed as part of its portfolio management and Investment Committee processes, including through using the capability assessment tool it has recently developed; integrating it into the reporting to donors should therefore not be too burdensome of an effort.
- The definition(s) of social impact could be further clarified and the methodology that each invested SB uses to calculate and report on these more clearly spelled out.
- A validation strategy, especially for non-financial indicators (as the financials can be verified through audited financial statements), needs to be defined. YSB should work with investees at to establish basic causal logic and/ or a research-based impact calculator with a straightforward method for sense-checking and validation. Evidence of impact should be strong enough to convince a reasonable sceptic, but that should be balanced with consideration for the costs of measurement and the burden to SBs that onerous compliance and reporting protocols could create.

<sup>3</sup> Vosmer, Willem & de Bruijn, Matthijs (Steward Redqueen). "Attribution in Results Measurement: Rationale and Hurdles for Impact Investors." July 2017. DCED.

- YSBU should also find ways to convey more clearly the level of confidence that an objective reviewer could expect to have in each results data point reported. To do this, YSBU's data and information management should be fortified with more thorough documentation and rigorous and consistent protocols.
- Addressing the internal 'roadblocks' around encouraging experimentation, providing staff with constructive feedback, and learning from failure could help YSB in learning and adjusting from mistakes more quickly.
- The evaluation team encourages both YSBU and Argidius, as a reputed and well-connected funder in the sector, to strengthen YSBU's relationships and information exchange with other local and international actors in the sector, including some of whom are also funded by Argidius and those who represent the sector (e.g. GALI, GAN). Objectives of this engagement would include, among others, exchanging lessons on 'what works' in investment readiness programs, sourcing for investment-eligible SBs, gathering intelligence about SBs already in the pipeline, and recommendations of qualified local consultants to provide certain post-investment technical assistance.
- YSBU should update its plan for reaching financial sustainability to clarify when this will be reached and/or which proportion of the program will likely continue to depend on donor funding.